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July 10, 2001

Chancellor Arthur K. Smith
University of Houston System
4800 Calhoun Road
Houston, TX 77204-2162

Dear Art:

In September 2000, in your capacity as chairman of the Coordinating Board's Formula Advisory Committee, you appointed two committees to review the university funding formula instruction and operations matrix – a “steering committee” and a “working committee.” I was honored to serve as chair of both committees.

On April 22, 2001, the two committees held a joint final meeting. The two committees jointly concluded that fundamental disagreements exist among members of the committee and that the committee cannot make a recommendation that would fairly represent a consensus of members. This letter is provided in lieu of a final report.

On behalf of the committee, I enclose four documents that should be considered work products of the committee. A subsequent committee considering this issue might find them useful.

- *Multiple Linear Regression Analysis of University Faculty Salaries.* This document summarizes work that Mr. Joseph M. Meyer from Southwest Texas State University did on behalf of the committee. To our knowledge, this is the first time that regression analysis has been applied to this problem. While the committee didn't find it to be a solution to the problem, it holds the promise of providing a completely data-driven approach to determining at least the faculty salary portion of the formula matrix. A subsequent committee may wish to explore this further.
- *Faculty Salary Allocation Model J.* The committee spent a significant amount of effort evaluating the model used to allocate faculty salaries among courses taught by faculty members. “Model J” provides a middle ground between the model that the Coordinating Board has used since 1992 and the model that was used prior to that date, both of which have supporters.
- *University Funding Formula Matrix Design Tool.* This “tool” is an integrated set of EXCEL spreadsheets that allows investigators to make a number of “what-if” assumptions regarding how funds other than faculty salaries are allocated and see the resulting formula matrix and the effects on institutions and disciplines.

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- *Request for Proposals.* At one stage of its deliberations, the committee considered obtaining the services of one of the major public accounting firms to do this study. A draft Request for Proposals was prepared for the committee, and that document is enclosed, as is a list of firms and contact persons who have expressed an interest in doing this work. This document might be useful, should a subsequent committee choose to adopt this approach.

All of these documents are available on the Coordinating Board's web site. Point your browser at www.thecb.state.tx.us; select "CB Advisory Committees"; select "University Funding Formula Matrix Committee."

Providing a rational basis for the funding formula is still an important goal, and I regret that we were not able to bring this task to a successful conclusion. I believe that the work done by members of the committee has led to a deeper understanding of the funding formulas, and that in itself is important. In spite of the fact that several committees have tried without success to do a cost study that would provide a firm foundation for the formula, I am not satisfied that it is impossible.

Finally, I wish to thank all the members of the committee and the Coordinating Board staff for their investment of time and energy in the work of the committee.

Respectfully,

William P. Hobby

Enclosures (4)

cc: Members of the Formula Advisory Committee
 Members of the Matrix Study Committees
 Commissioner Don W. Brown
 Ms. Wanda Mills, Council of Presidents and Chancellor